
**U.S. Senate
Republican Policy
Committee**

Don Nickles, Chairman
Doug Badger, Staff Director



**U.S. House
Republican
Conference**

John Boehner, Chairman
Barry Jackson, Executive Director

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Student Loans: Safeguarding Affordable Education

More Money for Students

- **Spending on Student Loans Increases.** Total funding for student loans will be increased by nearly 50 percent over the next seven years, from \$25 billion in 1995 to \$36 billion in 2002. More loans will be available next year than ever before, rising from 6.6 million loans in 1995 to 7.1 million in 1996.
- **Students Save Money.** Students will benefit from the scheduled interest rate reduction for new loans effective July 1998. An undergraduate who borrows \$17,125 over four years will save \$549; one who borrows the \$46,000 maximum will save \$2,114.
 - According to the Joint Economic Committee, a student with an \$11,000 10-year loan will save \$1,891 over the life of the loan due to lower interest rates under a balanced budget. The \$4.9 billion savings from streamlining the student loan system will help to achieve this result.
 - In addition, the Republican tax relief provision contains an income-contingent exemption for up to 20 percent (up to \$500) of interest paid on a student loan during the taxable year for up to five years of loan repayment.
- **No New Costs to Students or Parents.** The savings are achieved by rolling back the direct loan program to 10 percent of total loan volume and implementing changes affecting lenders, holders, guaranty agencies and Sallie Mae. For students, the six-month grace period remains intact along with the accompanying federal interest subsidy; for parents, the PLUS loan interest rate will stay at 3.1 percent; also, for schools, a new fee to participate in the student loan system will not be imposed.

Guaranteed Lending Versus Direct Lending

- **Direct lending is not a better deal for students.** Fees, interest rates, eligibility and repayment terms are essentially the same under both programs. Students with guaranteed loans will have the option to take advantage of repayment terms which are currently only available to students with direct loans, including extended repayment and income-contingent repayment.
- **Direct lending is not a better deal for taxpayers.** Loan capital for direct loans is obtained through the issuance of federal debt; capital for guaranteed loans is issued by private lenders. When students default, the taxpayer covers 100 percent of the value of direct loans, but only 95 percent of guaranteed loans.